

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Competitive Products Price Changes
Rates of General Applicability

Docket No. CP2020-249

COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION

(August 31, 2020)

The Parcel Shippers Association (PSA) respectfully submits these comments pursuant to Order No. 5638 and Postal Regulatory Commission (Commission) Rules of Practice. See 39 CFR Part 3035. These comments address two issues: (1) the advisability of the recently proposed time-limited changes in rates of general applicability for competitive products, and (2) how this proposal from the Postal Service Governors provides further evidence that the minimum contribution requirement established under section 3633 of title 39, United States Code, is unneeded and should be eliminated.

Founded in 1953, PSA represents companies that sell and ship goods to consumers and companies that support the parcel shipping industry. A list of PSA members is available on its website, www.parcelshippers.org. PSA's mission is to foster competition in the parcel delivery market. It creates value for its members by promoting the best possible service at the lowest possible costs. For competition to succeed it must be fair and PSA has consistently argued for a "level playing field" in the package delivery market.

The Proposed Price Adjustment

On August 14, 2020, the Postal Service filed notice with the Commission concerning time-limited changes in rates of general applicability for competitive products.¹ The changes are scheduled to take effect on October 18, 2020 and roll back to current levels on December 27, 2020. The Notice includes Governors' Decision No. 20-3, which states the new prices are in accordance with 39 U.S.C. 3632 and 3633 and 39 CFR 3035.102.² Order No. 5638, at page 3, summarizes the proposed price changes as follows:

Table I-1
Proposed Price Changes

Product Name	Average Price Increase (percent)
Domestic Competitive Products	
Priority Mail Express	0.7
Retail	0.0
Commercial Base	4.4
Commercial Plus	4.4
Priority Mail	1.7
Retail	0.0
Commercial Base	4.2
Commercial Plus	3.9
Parcel Select (non-Lightweight)	5.9
Destination Delivery Unit	6.8
Destination Sectional Center Facility	8.0
Destination Network Distribution Center	5.6
Parcel Select Lightweight	12.0
Parcel Select Ground	3.0
Parcel Return Service	3.3
Return Sectional Center Facility	1.9
Return Delivery Unit	4.7
First-Class Package Service	5.6
Retail	0.0
Commercial	7.0

¹ USPS Notice of Time-Limited Changes in Rates of General Applicability for Competitive Products, August 14, 2020 (Notice).

² Notice, Decision of the Governors of the United States Postal Service on Changes in Rates of General Applicability for Competitive Products (Governors' Decision No. 20-3), at 1 (Governors' Decision No. 20-3).

While the Postal Service does not enjoy the unfettered pricing “freedom” its private sector competitors do, the Postal Accountability and Enhancement Act (PAEA)³ grants it substantial pricing “freedom” to adjust its competitive product prices. PSA has long supported this pricing freedom for the Postal Service, and PSA’s review of the pending price adjustments suggests the Postal Service Governors are acting within the authority granted them by the PAEA. The fact that the Governors *may* order these adjustments, however, does not mean that they *should*. The financial benefits to be derived are questionable given the short-lived future of these price changes. It appears likely within weeks of these prices rolling back the Governors will increase competitive product prices again as part of the 2021 general price adjustments.

There is a significant, disturbing technology component-- the need for the Industry to open and program IT systems during peak period system embargos. It is very risky to do programming on critical IT infrastructure going into peak period. Many PSA members are in IT system lockdowns during this period. The fact that the Governors do not propose to increase retail prices suggests a reluctance to have to open their own critical IT payment systems twice during peak period. Though the Postal Service is following its competitors, in effect, establishing pricing surcharges during peak period, its competitors do not require the same IT workload from their customers. They will just bill their customers and or update their systems to reflect the additional fees. As one PSA member advised: “The effort is already quite extensive. It means our IT teams will be coding, testing and updating rates twice during peak and normal IT freeze. This is significant effort with no value.”

PSA members also caution that increasing prices at a time when unexpected operational changes have degraded package delivery service is not a promising strategy. Package shippers report longer delivery times and a pronounced elongation of the tail-of-the-mail. This has created enormous customer service issues, in addition to

³ Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006)(PAEA).

significantly tarnishing the good name and reputation of the Postal Service. The most obvious change the Postal Service made to “remedy” this service situation is to “lower the bar” by adjusting the service standards of Priority Mail and First-Class Mail parcels, adding a day to most of these package time-in transit standards.

Shippers use the Postal Service for affordability and reliability. The proposed increase, paired with degraded service, upends the postal value proposition. PSA Members touch more than 70 percent of the packages shipped domestically through the Postal Service. It is not unreasonable to expect some, perhaps many, to seek alternate carriers if the Governors continue down this road.

It is fair to ask what is driving this increase. Why, given these impacts, do the Governors choose a revenue-grabbing initiative, in the form of a COVID-19 price surcharge for calendar year Q4?

For the first time in the almost 50 years since Congress passed legislation⁴ to end a postal strike, take politics out of the post office, and turn postal pricing oversight over to a bipartisan, independent, expert regulator, politicians have turned the Postal Service, the most trusted Government institution,⁵ into a political football. A partisan penumbra has enveloped the United States Postal Service as the White House, the Congress, and the media focus on voting by mail. Given that only a few months ago the President said the Postal Service should quadruple its package prices and called the Postal Service a joke, this temporary increase is suspicious. Has political influence found its way back into postal pricing?

So, PSA urges the independent, bipartisan, expert Commission to urge the Postal Service Governors to hit “pause,” withdraw the proposed temporary competitive product price change, and return to regular pricing order until at least after the November 3, 2020 general election.

⁴ Postal Reorganization Act of 1970, Public Law 91-375, 84 Stat. 719. 39 U.S.C. §§ 101 et seq.

⁵ Pew Research Center, April 2020, “Public Holds Broadly Favorable Views of Many Federal Agencies, Including CDC and HHS”, at 6.

The Minimum Contribution Requirement

The Commission has pending the remand in Docket No. RM2017-1, considering whether the minimum contribution requirement for competitive products should be revised or eliminated. PSA has long argued the requirement is unneeded. The gusto with which the current Postal Service Governors are pursuing competitive product price increases confirms PSA's belief, expressed in comments more than two years ago, that the requirement is unneeded

As the Commission notes there is significant support for eliminating the minimum contribution requirement. Indeed, much of the Commission's reasoning, with which PSA agrees, supports eliminating the requirement.

- The minimum contribution requirement is not needed to prevent cross subsidization. The requirement that competitive product revenues exceed incremental costs already serves this purpose.
- The minimum contribution requirement is not needed to prevent the Postal Service from sacrificing contribution to increase the scale of its operations because USPS has demonstrated no inclination to do so. Indeed, USPS has substantially increased competitive product contribution over the last decade. In FY 2017, competitive products contributed \$7 billion to institutional costs, paying for 23 percent of total institutional costs.
- The minimum contribution requirement is not needed to ensure that competitive products cover "costs [that] are uniquely or disproportionately associated with any competitive products." All of these costs are already included in competitive product attributable costs.
- The minimum contribution requirement is not needed to ensure that competitive products cover fully allocated/distributed cost (FDC) because FDC costing "has long been rejected by the Commission and by economists in general as being inherently arbitrary.

Since those comments were filed, Competitive products contribution has continued to increase, "[i]n FY 2019, the total contribution made by Competitive products collectively to institutional costs was \$8.247 billion (approximately 23 percent of total institutional costs), which exceeds the 8.8 percent requirement." See FY 2019 ACD at 87.

PSA once again urges the Commission in reaching its decision on the pending remand, consistent with its own reasoning quoted above and with the recent experience of the proposed temporary price adjustment, to eliminate the minimum contribution requirement.

Respectfully submitted,
Pierce Myers
Attorney at Law
General Counsel to the
Parcel Shippers Association
703-627-5112
pierce@parcelshippers.org